Local Government

This part of the Budget includes information related to local governments.

Redevelopment Agencies

The winding down of the state's former redevelopment agencies (RDAs) continues to be a priority for the Administration. Chapter 5, Statutes of 2011 (ABx1 26), eliminated the state's approximately 400 RDAs and replaced them with locally organized successor agencies that are tasked with retiring the former RDAs' outstanding debts and other legal obligations. The elimination of RDAs allows local governments to protect core public services by returning property tax money to cities, counties, special districts, and K-14 schools.

In 2011-12 and 2012-13 combined, approximately $620 million was returned to cities, $875 million to counties, and $310 million to special districts. The May Revision estimates that cities will receive an additional $541 million in general purpose revenues in 2013-14 and 2014-15 combined, with counties receiving $662 million and special districts $209 million. It is estimated that additional ongoing property tax revenues of more than $700 million annually will be distributed to cities, counties, and special districts by 2016-17.

In 2011-12 and 2012-13 combined, approximately $2.2 billion was returned to K-14 schools. The May Revision estimates that Proposition 98 General Fund savings resulting from the dissolution of RDAs will be $1.1 billion in 2013-14. For 2014-15, Proposition 98 General Fund savings are estimated to be $811 million. On an ongoing basis, Proposition 98 General Fund savings are estimated to be $1 billion by 2016-17. When Test 1 of the Proposition 98 calculation is operative, funds above this amount will increase available resources for K-14 schools.

Tools For Local Economic Development

The elimination of RDAs returns over $1 billion annually to core public services. Since compliance levels with the RDA dissolution statutes are improving, the Governor's Budget proposed expanding the tax increment financing tool utilized by Infrastructure Financing Districts (IFDs) for a broader array of uses than are authorized under current law.

Specifically, the Governor's Budget included legislation that would provide greater flexibility to IFDs for cities and counties that have: (1) received a Finding of Completion, demonstrating they have remitted all unencumbered cash assets of their former RDAs to the affected taxing entities; (2) complied with all State Controller's Office RDA-related audit findings; and (3) concluded all outstanding legal issues concerning their former RDA with the state. These changes include:

- Expanding the types of projects that IFDs can fund to include military base reuse, urban infill, transit priority projects, affordable housing, and associated necessary consumer services. The goal is to maintain the IFD focus on projects which have tangible quality-of-life benefits for the residents of the IFD project area.
- Allowing cities or counties that meet specified benchmarks to create these new IFDs, and to issue related debt, subject to receiving 55-percent voter approval.
- Allowing new IFD project areas to overlap with the project areas of the former RDAs, while strictly limiting the available funding in those areas to dollars available after payment on all of the former RDA's approved obligations.
- Maintaining the current IFD prohibition on the diversion of property tax revenues from K-14 schools, which will ensure any usage will have no state General Fund impact, and require entities that seek to establish an IFD to gain the approval of the county, cities, and special districts that would contribute their revenue, including residual revenue, to the IFD.

Based on feedback received since the Governor's Budget, the May Revision proposes the following changes to the Administration's IFD proposal:

- Establishes Enhanced IFDs as a stand-alone provision in statute. This will allow cities and counties that have not resolved their outstanding RDA-related issues to participate in the current IFD program, which will continue in existence without modification.
- Clarifies that monies received by cities and counties pursuant to the Vehicle License Fee Swap may be securitized to fund Enhanced IFD projects.
- Clarifies that entities participating in an Enhanced IFD may seek voter approval, pursuant to existing statutory and constitutional requirements, to levy new fees or assessments to support projects identified in an Enhanced IFD project plan.
- Establishes affordable housing projects as projects of community-wide significance that an Enhanced IFD may fund.
- Clarifies that Enhanced IFDs must replace any low- or moderate-income housing that is removed as part of a project plan, as is required under current IFD law.
- Specifies that any affordable housing created or replaced as part of an Enhanced IFD project plan must include long-term affordability covenants of 55 years for rental units and 45 years for owner-occupied units.

State-County Assessors' Partnership Agreement Program

County assessors are responsible for assessing real and qualifying personal property for property tax purposes, and for maintaining and updating property tax rolls. An effective assessment system benefits the public, local governments, and the state.

The Governor's Budget proposed a State-County Assessors' Partnership Agreement Program to enhance local property assessment efforts. The Program would replace a similar statewide program that was eliminated in 2005-06 as a budget savings measure. The new program would begin on a three-year pilot basis, to be funded at $7.5 million per year and administered by the Department of Finance. The program will be limited to nine county assessors' offices that will be competitively selected from a mix of urban, suburban, and rural counties.

The May Revision proposes the following changes to the State-County Assessors' Partnership Agreement Program:

- Clarifies program funds may be used to assess and reassess business personal property as well as real property.
- Provides more flexibility in the distribution of grant funds to enable, for example, funds that are not claimed by assessors' offices in larger counties to be used to fund the participation of additional assessors' offices in smaller counties.
- Allows program funds to be used for information technology systems that can assist assessors' offices in reassessing property to its appropriate value.

State Mandate Reimbursements

The Commission on State Mandates is a quasi-judicial body that hears test claims to determine whether local agencies and school districts are entitled to reimbursement for costs related to new or higher levels of service mandated by the state. The Constitution was amended in 2004 to require the Legislature to either fund or suspend specified mandates in the annual Budget Act. The state owes counties, cities, and special districts $900 million in mandate reimbursements for costs incurred prior to 2004 that must be repaid under current law by 2020-21. Annual payments on this debt have been postponed in recent years.

To accelerate the repayment of this liability, the May Revision proposes a $100 million payment to local governments for the pre-2004 mandate debt. Approximately 73 percent of the payment will go to counties, 25 percent to cities, and 2 percent to special districts. A local agency will receive a portion of this payment based on the proportion of total pre-2004 mandate debt owed to that local agency. The monies paid would be general purpose and available to fund the highest priority core local government services. The Administration expects that most of the spending will be focused on improving implementation of 2011 Realignment and public safety.